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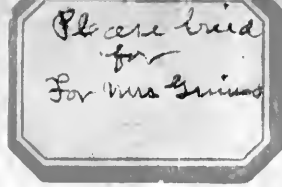
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# The Case Against State Insurance

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Together with an Editorial  
on  
**Workmen's Compensation**

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## The Case Against State Insurance

**S**HALL Insurance be written by the State? In this country the question should be its own answer. Under our system of forty-eight commonwealths, with their varying health, fire-prevention, and labor laws, the competition between the States and the trade inequality and general chaos that would result from forty-eight different State systems of life, fire, and accident insurance seem to preclude a Nation-wide State insurance plan. Nor are we Americans yet convinced that the central government should either become our insurance manager at large, or, through an excise tax under the "general welfare" clause of the Constitution, the universal insurer against all the hazards of the persons and the property of all the people.

But, waiving this basic difficulty, shall we undertake "State insurance" in the States? Not old age pensions, unemployment relief, and the like—these are not State, but social, insurance; indeed, merely extensions of poor relief, long a public function. But State insurance proper, in, say, the life, the fire, and the accident fields, which includes, if it is to be insurance as sound as is now furnished by private corporations, the solicitation of business, the making of rates, the collection of premiums, the up-building and maintenance of reserves, the adjustment of claims, and—not the least important—the guaranty of payments; are all these functions to be performed by the people, acting through their State Governments?

If they are, we may, ere we plunge, well seek the experience of other peoples with State insurance. The summary which fol-

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lows is, perhaps, not complete, but is a fair statement of that experience.

This new kind of indemnity is in operation in the following nations and States at the present time:

#### **State Life Insurance.**

**New Zealand**, since 1869, in free competition with private corporations.

**Italy**, beginning with 1913; a State monopoly.

**England**, since 1865, but limited to "industrial insurance" through the post-office system, and in free competition with private "industrial" insurance corporations.

**Wisconsin**, since January 1, 1913, in free competition with private corporations, but without State guaranty.

Laws similar to that of Wisconsin are also proposed, this year, in California, Kansas, Michigan, Nebraska, New Hampshire, Oregon, South Carolina, and Washington; while the Insurance Commissioner of Michigan is urging that the State undertake the "industrial" life insurance business.

#### **State Fire Insurance.**

**New Zealand**, since 1903, in free competition with private corporations.

**Italy** is also reported as considering the adoption of a State fire insurance monopoly.

#### **State Accident, Particularly Work Accident, Insurance.**

**New Zealand**, since 1901, in free competition with private corporations.

**Norway**, compulsory and exclusive as to work accidents, with State guaranty.

**Washington**, compulsory and exclusive as to work acci-



dents in hazardous employments, but without reserves against future pension payments or State guaranty.

Ohio, practically compulsory as to work accidents, but in free competition with private companies; also without reserves or State guaranty.

Italy, with a State insurance fund for work accidents as only one of several options open to the employer; this plan thus permitting free competition with private companies.

Michigan, with options similar to those of the Italian law.

Sweden, Finland, Belgium, and the Netherlands, with differing options as to work accidents, usually permitting private companies to compete with the State office.

In spite of this long catalogue of governmental experiments, it is thought to be a fair statement that, excluding the social and the near-social insurance plans, much less than one per cent of the outstanding insurance in the civilized world—whether measured by policies or by dollars of insurance—is written by Government, either as manager or insurer.

There are also twilight zones between the State form and social insurance, on the one hand, and these two and mutual insurance under State guaranty, on the other. Thus, the much-praised and generally successful German system of old age, sickness, and accident relief is mutual, State, and social insurance rolled into one, though essentially it is insurance by mutual associations of employers and employees. It is not State insurance as that term is understood by us. Again, England has for some years had an old age pension plan, supported solely by the British treasury—social insurance—and, under the leadership of Lloyd George, has recently embarked upon sickness insurance—compulsory on all who earn less than \$800 a year—and unemployment insurance, applicable to the engineering and building trades; both being forms of social insurance, and—the Government being the manager as well as the guarantor—State insurance

as well. The Massachusetts Workmen's Compensation Law, with its State-regulated mutual employers' association in free competition with the various private corporations, is also in this twilight zone; as is the Massachusetts plan for writing life insurance through savings banks.

That insurance is a public service of necessity will be admitted. But that, save as a relief against poverty, and, it is claimed, the human scrap-heap of modern industry, it falls within the sphere of government proper is as yet far from general recognition. The present demand for State insurance in this country rests, rather, not on economic theory, but on two very patent facts: the private insurance companies are unpopular; their rates are believed to be too high.

As to the first, they are corporations—which, in the public mind, is enough. But, more, some insurance corporations have been brought to book for financial transactions publicly condemned; while some others, in their callow years, were, speaking mildly, rather exacting in settling claims; and still others are now being grilled as accessory to the "arson trust." Which being noted, the plain fact is that—with exceptions which prove the rule aside—the private insurance companies of the country are well managed, honest in relations with policy-holders and the public, and absolutely dependable in a financial sense. I speak from the view-point of State supervision when I say that the people of our State would gain mighty little in dependability of insurance if the State plan should supersede the private plan: they would be pretty sure to lose much in efficiency and square dealing. Government with us is still political, not social.

But the rates. Yes, the cost generally speaking is too high. The premiums we pay go for (1) losses and reserves, (2) expense, and (3) profits. If the State is to do this business, no saving can be made on losses and reserves; rather the reverse. Perhaps, nay probably, the State could save on "expense"; and, the government being the stockholder, nothing would be needed for "profits." The prospect is, therefore, tempting where, in life in-

insurance, the expense or loading is, say, 10 per cent on non-participating insurance and 30 per cent on participating (a fair part of the latter, however, coming back in "dividends"); in fire insurance, say, 40 per cent, and in accident—particularly work accident—from 35 per cent to 50 per cent.

But how have the "State insurance" nations and States fared in seeking to eliminate the "expense" of insurance? Much the larger part of the expense factor goes in commissions to soliciting and collecting agents. Yet no State insurance plan has succeeded without having agents. Mr. Gladstone tried it in his postal industrial insurance plan of 1865, but the private companies forged ahead in spite of the prestige of the Government's guaranty, and the State's industrial life insurance became negligible. Wisconsin has made the same error; so few applications for insurance have come in that the State office has not yet started to issue policies. In New Zealand where there is free competition between the Government and the companies in all the fields, the Government has agents on commission as well as the companies. Italy starts off her life insurance monopoly with agents on commission, and compels new business, not by prizes and rewards to good producing agents, but by fining such agents as fail to produce each year new business up to the statutory limits. The only real remedy for the middleman cost is compulsory insurance, and, save for insurance against work accidents in hazardous trades, we are hardly ready for that.

But, further, as to the cost. New Zealand and Norway—the former in competition and the latter in monopolistic—have reduced the cost. But Norway did this at first at the expense of a heavy deficit, which was made up out of the national revenue. New Zealand began its fire insurance business by cutting rates, with the result that both the Government and the competing private companies probably wrote policies at a loss. Italy is wiser, and, in spite of her monopoly, has fixed the State life insurance rates at about a slight reduction from those previously charged by the private companies. Wisconsin offers insurance

well under the private rates, but then Wisconsin sells her insurance "over the counter" only, without agents, and, though thus saving, makes success through volume impossible. The States of Washington and Ohio, operating also without agents, further cut the cost of dispensing with that mere nothing, to them, reserves; thus, to an extent, charging the future with the compensation for work accidents of the present. In Norway the reduced cost has been accomplished at the expense of an unjust distribution of the economic waste from work accidents, all employers paying into the State fund at a flat rate per trade, irrespective of the safety appliances or inspections availed of by individual shops. But the notable fact is that in Socialistic New Zealand, where State life insurance has been the rule for more than forty years, where the State uses all the business-getting methods of the private companies, and where the State office enjoys a monopoly in the insurance of all civil servants, the private companies are slowly forging ahead in the percentage of insurance written, and, through the "selection" due to their larger number of new policies, are gradually overcoming the lead of the State as to cost. State insurance thus far, where social insurance is not essential to the general welfare, is but another teaching of the old lesson that government usually does its business less cheaply than do that government's citizens and corporate creatures.

It may be, therefore, granted that there would be a saving in premium cost—for a time at least—if the State should take over this business of insurance; perhaps if, through a State office, it became but the manager at large. But at what a cost would this saving be made! Insurance is not bread or book, but a highly specialized service, founded on technical deductions from various probabilities. Life insurance deals with one certainty—death—and its law of average is, therefore, sure; that, however is but the beginning of its problems. Fire insurance has been called a great gamble; the San Francisco conflagration shows why. The Triangle fire indicates the catastrophe risk of

workmen's compensation. With such hazards government should have naught to do—save to supervise strictly the companies which insure against them.

Are we ready, through government, to take over the intricate problems involved in the making of rates in all the insurance fields? Shall we transfer to ordinary political servants the delicate function of adjusting losses where the claims are against, not a private company, but the people—government itself?

Will works for the prevention of sickness, fires, and accidents be as well done through a political civil service as by the employees of a private company, whose tenure depends, not on election day results, but on real service?

Will social progress in the betterment of industrial conditions be as likely if the Socialistic leveler is substituted for individual initiative, and the money incentive expressed in safety appliances and fire-protected shops is taken away?

Have we not a plenty of State offices and State servants, already, and shall we double their number by the State's taking over insurance—managers, experts, agents, and all?

Are our State financial systems so sound that we can afford to put upon them the strain of insurance against all the hazards, both human and property, of all our people?

I think not.

Yes; State insurance would do if it were monopolistic and compulsory, and, again, if the State were prepared to pay properly for the technical skill now employed, and, still again, if—and a mighty "if" this—if it could be administered through a civil service ideally perfect. But we Americans do not yet cotton to bureaucratic compulsion, and for some years yet the words "jobs" and "influence" and "graft" will continue to have a sinister meaning.

In short, should insurance as a system, now closely supervised by the State, be taken away from present agencies of great skill—the insurance companies of to-day—and be remitted to our American system of politics, partisanship, and pull?

Decidedly not. If premium cost be the trouble, it can be remedied more easily and without shock. The growing number of mutual companies in all the insurance fields is significant. They, through so-called dividends and methods of getting business which make agents less numerous and insistent, are perhaps pointing the way. But if insurance is a public service of necessity that can certainly be done more effectively by private corporations than by the State, is not *the* way to check undue expense to limit it by law? This could easily be done. Certain adjustments to new conditions would, of course, be necessary. There would follow a great reduction in the number of insurance agents; stockholders' profits might be no higher than the interest earned on the capital invested; salaries might shrink. But insurance could then be had at a cost equivalent to the value of the service rendered, and our now bulging governments be saved from a Socialistic experiment as unnecessary as it is dangerous.

## The Outlook's Editorial Opinion

WHEN a machine is injured in the course of its use, the owner of the machine bears the cost of the injury and charges it to the expense of production, for which he receives payment as he sells his goods. When, however, a workman is injured in the course of his employment, the cost of the injury comes upon him, who can ill afford to bear it; and if his injury is serious, resulting in long incapacity for work, or in death, his family is drafted into that great army of dependents that is a reproach to our civilization.

There is no reason that common sense can accept why the cost in human efficiency and human life of the production of the things that people need should not be charged to the account of that production, just as is charged the cost in injury to machinery.

It is this consideration that has led to the passage of workmen's compensation laws. Among the States to adopt such a law was the greatest industrial State in the Union, New York; but the highest court in that State declared that the people had no power to pass such a law; the judges said it was a good law, a greatly needed law, but that it was unconstitutional, because the employers were required to charge to their expense account injuries to the workmen. Now New York is trying to see if it cannot have some kind of workmen's compensation law that will be constitutional.

There are two ways by which the State can conceivably do this.

One way is by the slow process of changing the Constitu-

tion so that the Legislature will be empowered to pass a compulsory compensation act.

The other way is to frame a measure in such a form that the employer will not be compelled by the State to compensate his employees, but will find it very disadvantageous to himself if he does not do so but elects to take his chances in the courts, because he will find himself stripped of his common law defenses.

There are several States which have chosen the second of these alternatives; and it is the second of these alternatives which is under serious consideration in the New York Legislature at present. At the same time there is also pending in the Legislature a resolution to amend the Constitution so that the first alternative may be adopted.

There is practically no serious opposition to the proposal that some kind of workmen's compensation law be passed in New York; but there is a warm dispute as to what form that law should take.

It is evident that if workmen are to be compensated for injury there must be a fund provided out of which such compensation can be paid. There are four possible ways for providing such a fund. First, each employer may reserve a portion of his income out of which to pay his own employees. This of course is possible when the employer is a great corporation; but it is practically out of the question with the small employer, who would find it impossible to meet the cost of a serious disaster suddenly occurring. Second, a number of employers may join in establishing a common compensation fund, thus carrying on for this particular purpose a process of mutual insurance. Third, the employers who choose to act in accordance with a compensation law may be required to take out insurance in private liability companies. There is a great objection to this, especially on the part of organized workmen. The reasons for this objection are that these liability companies have no interest whatever in the relation between the employer and the employees, and are therefore likely to disregard all the human ele-



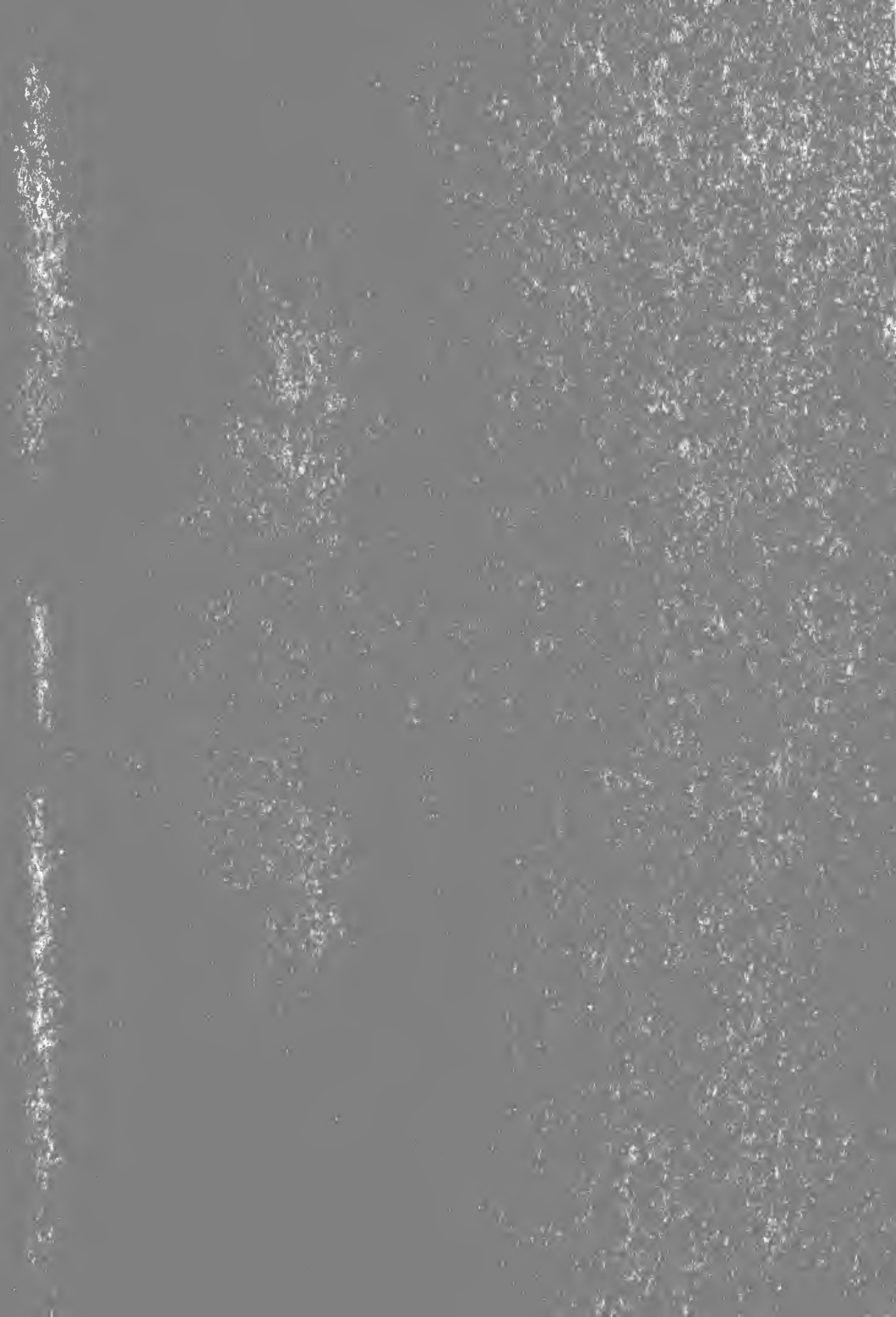
ment that the employer would take into consideration; that some of these liability companies have, at least in the past, been guilty, like some other corporations, of sharp practices in order to save payment of the insurance; and that the cost of the agents necessary for the securing of business adds unnecessarily to the cost of the insurance, and therefore subtracts from the amount that the workman otherwise might receive. Fourth, the fund out of which compensation may be paid may be administered by the State, each employer—and possibly each employee—contributing his quota to the fund, the disbursements being made by a department of the State government. The objections to this method are suggested in the course of Mr. Hotchkiss's article printed in this issue. Those objections are not so serious to an insurance fund to which employers are compelled to contribute as they are to the general practice of State insurance against fire, ordinary accidents, and death; but they are very forcibly expressed by certain employers and by representatives of liability companies.

There have been two important bills before the New York Legislature. One adopts the liability company plan, the other adopts the State insurance plan. In favor of the latter are the labor unions, while against it are arrayed the majority of big employers and the casualty companies who are willing to accept the other bill as an alternative. It is now proposed that the two features be combined, with possibly the other two features also, so that the employer may have his choice of funds—an individual fund, a mutual fund, a liability companies' fund, or a State fund—from which to draw.

We have simply stated here in broadest outlines the situation in New York, without undertaking to indicate what particular method should be followed. Public opinion appears to be moving toward what we believe is the wisest course—the adoption of a system which will give the employer a choice among the various methods. It is even conceivable that a bill might be drafted establishing a compulsory compensation system with

these four optional methods as to insurance, which would go into operation immediately upon the adoption of the Constitutional amendment permitting a compulsory compensation law.

The significant thing about this whole situation is that the discussion has changed from an argument between those who believed in workmen's compensation and those who opposed it, to an argument merely over method. Nothing could more clearly demonstrate the great advance that has been made within recent years in the development of a keener public conscience and a greater sense of public responsibility for all that affects social welfare and that impedes or promotes social justice.



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